

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>TAWAS AREA SCHOOLS</b>	County <b>IOSCO</b>
Audit Date <b>06/30/2004</b>	Opinion Date <b>10/04/2004</b>	Date Accountant Report Submitted to State: <b>11/09/2004</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

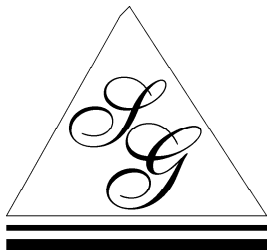
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>STEPHENSON, GRACIK &amp; CO., P.C.</b>			
Street Address <b>325 NEWMAN STREET, PO BOX 592</b>	City <b>EAST TAWAS</b>	State <b>MI</b>	ZIP <b>48730</b>
Accountant Signature 		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.08.12 09:28:29 -0500 Reason: I am approving this document	



*Stephenson Gracik & Co., P.C.*

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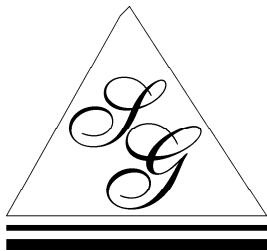
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Herman A Bertuleit, CPA

TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2004

**AUDITORS' REPORT**

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# *Stephenson Gracik & Co., P.C.*

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Herman A Bertuleit, CPA

October 4, 2004

## Independent Auditors' Report

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2004, on our consideration of Tawas Area Schools', Iosco County, Michigan, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tawas Area School's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephenson, Gracik & Co., P.C.*

# Tawas Area Schools

245 West M-55 • Tawas City, MI 48763  
Jerry W. Youngs, Superintendent  
Telephone (989) 984-2250 • Fax (989) 984-2253



As management of the Tawas Area Schools, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2004.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the school district's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues and expenditures by program for the General Fund, Sinking Fund, Debt Retirement Fund, Food Service Fund and Athletics Fund.

## FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The overall conditions of all funds, governmental activities and business type activities, remained relatively stable for the district during the 2003-2004 school year. Goals related to financial activities were met. However, this was only accomplished as a result of cutting supplies, extra trips, field trips, conferences, reducing the teaching staff by eight, reducing the support staff by five, and switching the insurance plan for Central Office and other administrators. Future revenue projections look tenuous at best as Michigan's revenue projection will probably miss their target goals by millions of dollars. This will mean a further reduction in revenue for the coming year. Economic forecasts for future years do not seem to offer much good news. Couple this shortfall of revenue with declining enrollment, increasing costs of utilities, insurance, retirement and labor and it is very doubtful that adequate resources will be available for the 2005-2006 school year.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$6,226,567 (net assets). Of this amount, \$587,688 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students and creditors.

The District's total net assets decreased by \$30,704. This represents decreases in ongoing revenues and increases in ongoing expenses.

As of the close of the current fiscal year, the District's governmental funds reported combined ending funds balances of \$1,348,732, a decrease of \$174,474 in comparison with the prior year. Virtually this entire amount is available for spending at the District's discretion (unreserved fund balance).

At the end of the current fiscal year, the aggregated fund balance for the District's operating funds (General Fund, Sinking Fund, Debt Retirement Fund, Food Service Fund and Athletic Fund) was \$1,348,732 or 11% of the total expenditures of these operating funds.

## USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Tawas Area Schools basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

A large, stylized graphic of a sailboat with a white sail on a dark hull, set against a background of a rising sun with rays. The graphic is positioned behind the text "Education; The Foundation of Our Community".

**"Education; The Foundation of Our Community"**

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2004

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the Tawas Area School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, support services, and food service.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the *governmental funds* and *governmental activities*.

The District maintains 5 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and sinking fund which are both considered to be a major fund. Data from the other 3 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budgets.

The basic governmental fund financial statements can be found on pages 10 and 12 of this report.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2004

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government -wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 14 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government -wide and fund financial statements. The notes to the financial statements can be found on pages 15 - 29 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the District's major funds. Required supplementary information can be found on page 30 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 31 - 39 of this report.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplemental Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT -WIDE FINANCIAL ANALYSIS

The School District's net assets were \$6,226,567 at June 30, 2004. Of this amount, \$587,688 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the School District's governmental activities.

TABLE 1  
NET ASSETS

	<u>Governmental Activities</u>	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Current Assets	\$ 2,259,255	\$ 2,429,502
Noncurrent Assets	<u>10,647,979</u>	<u>9,263,534</u>
Total Assets	<u>12,907,234</u>	<u>11,693,036</u>
Current Liabilities	928,023	925,113
Noncurrent Liabilities	<u>5,752,644</u>	<u>6,089,751</u>
Total Liabilities	<u>6,680,667</u>	<u>7,014,864</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2004

GOVERNMENT -WIDE FINANCIAL ANALYSIS (CONTINUED)

TABLE 1  
NET ASSETS

	<u>Governmental Activities</u>	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
<u>Net Assets</u>		
Invested in Capital Assets – Net of Debt	\$ 5,380,479	\$ 3,474,505
Restricted	258,400	409,964
Unrestricted	<u>587,688</u>	<u>793,703</u>
Total Net Assets	<u>\$ 6,226,567</u>	<u>\$ 4,678,172</u>

The \$587,688 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example), we would have \$587,688 left.

TABLE 2  
CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>Year Ended June 30, 2004</u>	<u>Year Ended June 30, 2003</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 399,056	\$ 389,620
Operating Grants and Contributions	7,851,690	8,378,377
General Revenues:		
Current Property Taxes	4,213,876	4,133,272
Investment Earnings	11,609	23,695
Miscellaneous	<u>17,912</u>	<u>18,421</u>
Total Revenues	<u>12,494,143</u>	<u>12,943,385</u>
Function s/Program Expenses:		
Instruction	7,787,134	8,433,353
Supporting Services	3,276,328	3,275,175
Community Services	2,395	2,338
Food Services	472,761	462,094
Athletics	243,805	260,307
Interest on Long-Term Debt	192,970	314,510
Unallocated Depreciation	<u>549,490</u>	<u>579,742</u>
Total Functions/Program Expenses	<u>12,524,883</u>	<u>13,327,519</u>
Decrease in Net Assets	<u>\$ (30,740)</u>	<u>\$ (384,134)</u>

Governmental activities decreased the District's net assets by \$30,740.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2004

As reported in our Statement of Activities on page 9 the cost of all of our governmental activities this year was \$12,524,883. However, the amount that our taxpayers ultimately financed for these activities through the School District was only \$4,213,876 because some of the cost was paid by those who benefited from the programs (\$399,056), by other governments and organizations who subsidized certain programs with grants and contributions (\$7,851,690), and by miscellaneous sources (\$29,521).

**MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS**

The District's budgets are prepared according to Michigan law. The budgeted funds are the General Fund, the School Lunch Fund, the Athletics Fund, the Sinking Fund and the Debt Retirement Fund.

During the year ended June 30, 2004, the District amended the budgets of these governmental funds a couple of times, none significantly.

**General Fund**

The general fund actual revenue was \$11,147,294. The amount is below the original budget estimates of \$11,367,895 and above the final amended budget of \$11,115,129. The variance between the actual revenues and the final budget was the result of the unexpected receipt of IDEA Flow Thru funds from Iosco RESA.

The actual expenditures of the general fund were \$11,030,945, which is below the original budget estimates of \$11,589,418 and the final amended budget of \$11,176,568. The variance between the actual expenditures, the original budget, and final budget was due to spending cuts.

The General Fund had total revenues of \$11,147,294 and total expenditures of \$11,030,945 with an ending fund balance of \$1,067,264.

**TOTAL REVENUES**

The total revenues of the School District were \$12,487,522. Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$8,250,746 or 66% of total revenues of \$12,487,522.

**GOVERNMENTAL FUND EXPENDITURES**

Total governmental fund expenditures amounted to \$12,668,617. The governmental funds had a net loss in fund balance of \$174,474. The ending fund balance for all governmental funds was \$1,348,732 which represents 11% of current year expenditures. This fund balance will be used to cover increases in operation and decreases in state revenue in future years.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2004, the District had \$17,906,618 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$7,390,497 in depreciation has been taken over the years. We currently have net book value of \$10,516,121. Total additions for the year were \$366,971. The beginning balances for capital assets increased because of the restatement of historical costs due to errors discovered in valuation by prior appraisal company.

**Long-Term Debt**

At June 30, 2004, the District had \$5,250,000 in bonds outstanding which represent general obligation bonds of the District.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2004

State statutes limit the amount of general obligation debt that a School District may issue. The current debt limitation for the School District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Note 7 on page 24 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan is slowing significantly. The current State of Michigan revenue estimates have declined to the point that 2004-2005 funding is uncertain. These factors were considered in preparing the Tawas Area School's budgets for the 2004-2005 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Tawas Area School's finances for all those with an interest in government finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Jerry Youngs  
Superintendent  
Tawas Area Schools  
245 W. M-55  
Tawas City, MI 48763  
Office Telephone (989) 984-2250

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
June 30, 2004

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents (Note 3)	\$ 924,037
Investments with escrow agent (Note 3)	6,740
Receivables:	
Accounts	14,714
State of Michigan (Note 4)	1,250,099
Due from local units	50,441
Inventory: (Note 1)	
Supplies	2,431
Building trades home and lots	10,793
Bond issuance costs - net (Note 1)	131,858
Capital assets - net (Note 6)	<u>10,516,121</u>
 Total Assets	 <u>12,907,234</u>
<u>Liabilities:</u>	
Accounts payable	245,439
Salaries payable	549,365
Payroll withholdings payable	115,719
Interest payable	17,500
Long-term liabilities:	
Due within one year (Note 7)	680,837
Due in more than one year	<u>5,071,807</u>
 Total Liabilities	 <u>6,680,667</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	5,380,479
Restricted for:	
Food service	15,318
Debt retirement	62,118
Capital projects	180,964
Unrestricted	<u>587,688</u>
 Total Net Assets	 <u>\$ 6,226,567</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2004

		<u>Program Revenues</u>		<u>Net (Expenses)</u> <u>Revenue and</u> <u>Change in</u> <u>Net Assets</u>
	<u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Government</u> <u>Type</u> <u>Activities</u>
Instruction	\$ 7,787,134	\$ 28,509	\$ 5,544,710	\$ (2,213,915)
Supporting services	3,276,328	59,042	2,017,971	(1,199,315)
Community services	2,395	30,399	0	28,004
Food services	472,761	213,760	258,509	(492)
Athletics	243,805	67,346	30,500	(145,959)
Interest on long-term debt	192,970	0	0	(192,970)
Unallocated depreciation	<u>549,490</u>	<u>0</u>	<u>0</u>	<u>(549,490)</u>
Total	<u>\$ 12,524,883</u>	<u>\$ 399,056</u>	<u>\$ 7,851,690</u>	<u>(4,274,137)</u>
General purpose revenue:				
Current property taxes				4,213,876
Investment earnings				11,609
Miscellaneous				<u>17,912</u>
Total general purpose revenue				<u>4,243,397</u>
Change in net assets				(30,740)
Net assets - beginning, as restated (Note 2)				<u>6,257,307</u>
Net assets - ending				<u>\$ 6,226,567</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
June 30, 2004

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents (Note 3)	\$ 647,211	\$ 276,826	\$ 924,037
Investments with escrow agent (Note 3)	0	6,740	6,740
Receivables:			
Accounts	14,589	125	14,714
State of Michigan (Note 4)	1,250,099	0	1,250,099
Due from local units	50,441	0	50,441
Inventory: (Note 1)			
Supplies	0	2,431	2,431
Building trades home	10,793	0	10,793
Total Assets	<u>\$ 1,973,133</u>	<u>\$ 286,122</u>	<u>\$ 2,259,255</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Accounts payable	\$ 240,785	\$ 4,654	\$ 245,439
Salaries payable	549,365	0	549,365
Payroll withholdings payable	115,719	0	115,719
Total liabilities	<u>905,869</u>	<u>4,654</u>	<u>910,523</u>
<u>Fund Equity</u>			
Fund balances:			
Reserved:			
Food service fund	0	15,318	15,318
Debt retirement fund	0	62,118	62,118
Capital projects fund	0	180,964	180,964
Unreserved, reported in:			
General fund	1,067,264	0	1,067,264
Special revenue funds	0	23,068	23,068
Total fund equity	<u>1,067,264</u>	<u>281,468</u>	<u>1,348,732</u>
Total Liabilities and Fund Equity	<u>\$ 1,973,133</u>	<u>\$ 286,122</u>	<u>\$ 2,259,255</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET ASSETS OF GOVERNMENTAL ACTIVITIES  
June 30, 2004

Total governmental fund balances:		\$ 1,348,732
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:		
Capital asset cost	\$ 17,906,618	
Capital asset accumulated depreciation	<u>(7,390,497)</u>	
		10,516,121
Accrued interest on long-term debt		(17,500)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Bonds payable (net)	(5,118,142)	
Compensated absences payable	(162,383)	
Retirement incentive liability	<u>(340,261)</u>	
Total long-term liabilities		<u>(5,620,786)</u>
Total net assets - governmental activities		<u>\$ 6,226,567</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2004

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>			
Local sources:			
Current property taxes	\$ 3,448,100	\$ 765,776	\$ 4,213,876
Lunch sales	0	210,309	210,309
Gate receipts	0	63,215	63,215
Community education - tuition	30,399	0	30,399
Medicaid fee for service	28,159	0	28,159
Interest on investments	7,272	4,337	11,609
Contributions	0	30,500	30,500
Other	60,665	16,228	76,893
State sources	7,110,704	31,345	7,142,049
Federal sources	405,186	218,518	623,704
Interdistrict sources	56,809	0	56,809
Total revenue	<u>11,147,294</u>	<u>1,340,228</u>	<u>12,487,522</u>
<u>Expenditures</u>			
Current:			
Instruction	7,812,089	0	7,812,089
Support services	3,193,480	0	3,193,480
Community services	2,395	0	2,395
Food services	0	472,761	472,761
Athletics	0	243,805	243,805
Debt service:			
Principal retirement	0	395,000	395,000
Interest and fiscal charges	0	182,116	182,116
Capital outlay	22,981	343,990	366,971
Total expenditures	<u>11,030,945</u>	<u>1,637,672</u>	<u>12,668,617</u>
Excess of revenue over (under) expenditures	<u>116,349</u>	<u>(297,444)</u>	<u>(181,095)</u>
<u>Other Financing Sources (Uses)</u>			
Sale of fixed assets	6,621	0	6,621
Operating transfers in	30,500	186,326	216,826
Operating transfers out	(186,326)	(30,500)	(216,826)
Total other financing sources (uses)	<u>(149,205)</u>	<u>155,826</u>	<u>6,621</u>
Excess of revenue and other sources over (under) expenditures and other uses	(32,856)	(141,618)	(174,474)
Fund balances - beginning of year	<u>1,100,120</u>	<u>423,086</u>	<u>1,523,206</u>
Fund balances - end of year	<u>\$ 1,067,264</u>	<u>\$ 281,468</u>	<u>\$ 1,348,732</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2004

Total net change in fund balances - governmental funds	\$	(174,474)
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Amounts reported for governmental activities in the statement of activities  
 are different because:

Governmental funds report capital outlays as expenditures. However, in the  
 statement of activities, the cost of those assets is allocated over their  
 estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (549,490)	
Capital outlays reported in the governmental funds	<u>366,971</u>	
Net difference		(182,519)

Repayment of bond principal is an expenditure in the governmental funds,  
 but the repayment reduces long-term liabilities in the statement of net  
 assets. This is the amount of repayments reported as expenditures in  
 the governmental funds.

395,000

Net change in accrued interest payable:

Accrued interest on long-term liabilities June 30, 2003	18,817	
Accrued interest on long-term liabilities June 30, 2004	<u>(17,500)</u>	
		1,317

Amortization of deferred bond costs

(12,171)

Net change in early retirement incentives:

Early retirement incentives June 30, 2003	310,311	
Early retirement incentives June 30, 2004	<u>(340,261)</u>	
		(29,950)

Net change in accrued compensated absences:

Accrued compensated absences June 30, 2003	134,440	
Accrued compensated absences June 30, 2004	<u>(162,383)</u>	
		<u>(27,943)</u>

Change in net assets of governmental activities	\$	<u>(30,740)</u>
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The accompanying notes to financial statements are an integral part of this statement.



TAWAS AREA SCHOOLS  
Iosco County, MichiganSTATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
June 30, 2004

	<u>Student Activity</u>
<u>ASSETS</u>	
Cash and cash equivalents	<u>\$ 144,250</u>
<u>LIABILITIES</u>	
Due to student groups	<u>\$ 144,250</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tawas Area Schools conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The Tawas Area Schools (School District) is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Tawas Area Schools Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by Tawas Area Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the School District's major governmental fund:

General Fund – The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose; and the acquisition or construction of major capital facilities.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of government al fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2004, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From State of Michigan

This represents amounts receivable from the State of Michigan for federal and state reimbursable programs.

G. Inventory – Supplies

Inventory on government-wide financial statements are stated at cost and are expensed when used.

Inventory on fund financial statements are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

H. Inventory - Building Trades Home and Lots

Inventory represents the cost of property purchased for future building sites.

I. Deferred Charges

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the District's termination policy.

For governmental fund financial statements, the liability is not reported until it becomes due for payment. The amount of accumulated sick and vacation pay liability for Tawas Area Schools was \$162,383, of which \$126,840 is current.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Property Taxes

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

P. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2003.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2003 - August, 2004. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

Q. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

R. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2004.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Economic Dependency

The School District received approximately 62% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

U. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

V. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Projects Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Tawas Area Schools follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

NOTE 2 - RESTATEMENT OF NET ASSETS

Correction of an Error

The School District adopted Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis, for State and Local Governments at June 30, 2003. An appraisal was obtained and used to calculate capital asset historical cost based upon the Consumer Price Index tables. However, subsequent to year-end, the District identified several errors in the appraisal. A second appraisal was obtained in the fiscal year ending June 30, 2004, and the beginning net assets have been restated to reflect the corrected appraisal amounts.



TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 2 - RESTATEMENT OF NET ASSETS (CONTINUED)

Restatement of Net Assets

The net asset restatement for these changes is presented below:

Net assets as originally stated at June 30, 2003	\$ 4,678,172
Adjust net capital assets to actual	<u>1,579,135</u>
Net assets as restated at June 30, 2003	<u>\$ 6,257,307</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 924,037	\$ 144,250	\$ 1,068,287
Investments with Escrow Agent	<u>6,740</u>	<u>0</u>	<u>6,740</u>
	<u>\$ 930,777</u>	<u>\$ 144,250</u>	<u>\$ 1,075,027</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	\$ 570,653
Investments in Securities and Similar Vehicles	496,734
Investments with Escrow Agent	6,740
Petty Cash and Cash on Hand	<u>900</u>
Total	<u>\$ 1,075,027</u>

Deposits:

Deposits are carried at cost. Deposits of the School District are held at various banks in the name of the School District. At June 30, 2004, the carrying amounts of the School District's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 118,739	\$ 119,174
Uninsured – uncollateralized	<u>451,914</u>	<u>531,874</u>
Total primary government	<u>\$ 570,653</u>	<u>\$ 651,048</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments:

The School District is authorized through Board resolution and by the State of Michigan Public Act 451 of 1976 as amended to invest in the following:

Bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above, and investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

Investments are categorized into these three categories of credit risk.

1. Insured or registered with securities held by the entity or by its agent in the entity's name.
2. Uninsured and unregistered investments for which the securities are held by the broker or broker's trust department or agent in the entity's name.
3. Uninsured and unregistered investments for which the securities are held by the broker or broker's trust department or agent but not in the entity's name.

At June 30, 2004, the School District's investments consisted of municipal investment pools and money market accounts, which are not required to be categorized with a carrying and market value of \$496,734.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>Governmental Activities</u>	<u>Amount</u>
State Aid	<u>\$ 1,250,099</u>

NOTE 5 - SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2004.

TAWAS AREA SCHOOLS  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<u>Governmental Activities</u>				
Land	\$ 1,182	\$ 149,343	\$ 0	\$ 150,525
Buildings and additions	13,456,052	0	0	13,456,052
Site improvements	1,317,551	194,647	0	1,512,198
Equipment and furniture	899,025	14,368	0	913,393
Vehicles	180,993	8,613	0	189,606
Buses	1,308,298	0	0	1,308,298
Education media and textbooks	<u>376,546</u>	<u>0</u>	<u>0</u>	<u>376,546</u>
Total at historical cost	<u>17,539,647</u>	<u>366,971</u>	<u>0</u>	<u>17,906,618</u>
Less: Accumulated Depreciation				
Buildings and additions	(4,166,970)	(263,497)	0	(4,430,467)
Site improvements	(844,145)	(65,878)	0	(910,023)
Equipment and furniture	(424,866)	(103,978)	0	(528,844)
Vehicles	(105,586)	(17,624)	0	(123,210)
Buses	(922,894)	(98,513)	0	(1,021,407)
Education media and textbooks	<u>(376,546)</u>	<u>0</u>	<u>0</u>	<u>(376,546)</u>
Total accumulated depreciation	<u>(6,841,007)</u>	<u>(549,490)</u>	<u>0</u>	<u>(7,390,497)</u>
Governmental Activities Capital Assets-Net	<u>\$ 10,698,640</u>	<u>\$ (182,519)</u>	<u>\$ 0</u>	<u>\$ 10,516,121</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 7 - LONG-TERM LIABILITIESA. General Obligation Bonds Payable

	Date of Contract	Principal Due	Interest on Note	Total Obligation
The bonds dated March 27, 2003 which bear interest from 2% to 3.6% are due serially each May 1 through 2015.	2003	<u>\$ 5,250,000</u>	<u>\$ 1,072,120</u>	<u>\$ 6,322,120</u>

TAWAS AREA SCHOOLS  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)A. General Obligation Bonds Payable (Continued)

The annual principal and interest requirements for the years after June 30, 2004 for the General Obligation Bonds are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 415,000	\$ 158,500	\$ 573,500
2006	420,000	150,200	570,200
2007	430,000	141,800	571,800
2008	445,000	128,900	573,900
2009	455,000	115,550	570,550
2010-2014	2,525,000	357,010	2,882,010
2015	<u>560,000</u>	<u>20,160</u>	<u>580,160</u>
Total	<u>\$ 5,250,000</u>	<u>\$ 1,072,120</u>	<u>\$ 6,322,120</u>

B. Compensated Absences Payable

The School District has an employee benefit plan that allows employees to accumulate sick and vacation pay days. The amount of accumulated sick and vacation pay liability for the Tawas Area Schools at June 30, 2004 was \$162,383 at June 30, 2004, of which \$126,840 was the estimated current portion.

C. Retirement Incentive Payable

The School District has two retirement incentive programs, Option A was offered to all teachers actively employed by the District and not on leave, who have thirty (30) or more years of retirement credit, or are in the process of purchasing or willing to purchase service credit to get them to (30) years of credit by June 30, 2004. Option B was offered to all teachers who are actively employed with the District and not on leave, who are fifty-five (55) years of age and meet the requirements of the State of Michigan Public School Retirement Law and are able to receive State of Michigan retirement benefits at a reduced amount. The amount of retirement incentive liability for Tawas Area Schools at June 30, 2004 was \$340,261, of which \$138,997 was the estimated current portion.

D. Advance Refunding

On March 27, 2003, the School District issued \$5,645,000 of 2003 Refunding Bonds to refund the remaining portion of the 1993 General Obligation Refunding Bonds, and to pay certain costs and expenses relating to the issuance of the 2003 Refunding Bonds. Details of the refunding are as follows:

Total Debt Service for the 1993 Refunded Bonds	\$ 7,664,638
Total Debt Service for the 2003 Refunding Bonds	<u>6,899,236</u>
Total change in Debt Service	765,402
Less: Debt Service Funds to Escrow	<u>140,365</u>
Net Savings (Net of Cost of Issuance)	<u>\$ 625,037</u>

TAWAS AREA SCHOOLS  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)D. Advance Refunding (Continued)

Total expenses of issuing the 2003 Refunding Bonds, including the underwriters discount and compensation, bond insurance, legal and accounting and other costs and premium paid on the early payment of the 1993 bonds in the amount of \$146,058 are being amortized over the remaining life of the outstanding bonds using the straight-line method. For the year ended June 30, 2004, the total amortization was \$12,171.

E. Changes in Long-Term Liabilities

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Amount Due</u> <u>In One Year</u>
<u>Governmental Activities</u>					
Bonds payable	\$ 5,645,000	\$ 0	\$ 395,000	\$ 5,250,000	\$ 415,000
Early retirement incentive	310,311	29,950*	0	340,261	138,997
Compensated absences	<u>134,440</u>	<u>27,943*</u>	<u>0</u>	<u>162,383</u>	<u>126,840</u>
Total long-term liabilities	<u>\$ 6,089,751</u>	<u>\$ 57,893</u>	<u>\$ 395,000</u>	<u>\$ 5,752,644</u>	<u>\$ 680,837</u>

The payment dates of compensated absences payable are undeterminable.

The interest expenditures on long-term obligations for the year were \$182,116.

\*Represents net of additions and retirements for the year.

NOTE 8 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004 consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
General Fund	\$ 30,500	Athletic Fund	\$ 30,500
Athletic Fund	<u>186,326</u>	General Fund	<u>186,326</u>
Total	<u>\$ 216,826</u>	Total	<u>\$ 216,826</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

TAWAS AREA SCHOOLS  
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2004, the School District incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General/Capital Outlay	\$ 9,075	\$ 22,981	\$ 13,906

NOTE 10 - RETIREMENT PLANSDefined Benefit Plan

The School District contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Effective January 1, 1987, employees who were MPERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

During the plan fiscal year 2003, employer contributions were 12.99% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. The contribution requirements of plan members and Tawas Area School District are established and may be amended by the MPERS Board. The School District's contributions to MPERS for the years ending June 30, 2004, 2003 and 2002 were \$894,415, \$930,950 and \$887,306, respectively, equal to the required contributions for each year.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 10 - RETIREMENT PLANS (CONTINUED)

The MPSERS also provides for death and disability benefits which are established by state statute. Under the MPSERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPSERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

Effective September 1, 2002, the District offered its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the plan totaled \$17,010 for the year ended June 30, 2004.

The School District also offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program they must continue until completion of the purchase of the service credit or termination of employment from Tawas Area Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$90,612 for the year ended June 30, 2004.

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$331,293 for the year ended June 30, 2004. The assets of the plan are administered and held by various approved third party financial institutions.

NOTE 11 - SINKING FUND

The Capital Projects Fund records capital project activities funded with Sinking Fund Millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the revised bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

NOTE 12 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004

NOTE 13 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. No liabilities were due as of June 30, 2004.

NOTE 14 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 15 - CONTINGENCIES AND COMMITMENTS

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2004, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

NOTE 16 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements, Exhibits L & M, in order to provide an understanding of changes in the School District's financial position and operations. Some prior year balances have been reclassified to conform with the current year presentation.



REQUIRED SUPPLEMENTARY INFORMATION

TAWAS AREA SCHOOLS  
losco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local sources	\$ 3,515,375	\$ 3,559,344	\$ 3,574,595	\$ 15,251
State sources	7,290,415	7,078,275	7,110,704	32,429
Federal sources	507,105	405,034	405,186	152
Interdistrict sources	<u>55,000</u>	<u>72,476</u>	<u>56,809</u>	<u>(15,667)</u>
Total revenue	<u>11,367,895</u>	<u>11,115,129</u>	<u>11,147,294</u>	<u>32,165</u>
<u>Expenditures</u>				
Current:				
Instruction	9,126,478	7,946,648	7,812,089	134,559
Support services	2,459,968	3,218,448	3,193,480	24,968
Community services	2,972	2,397	2,395	2
Capital outlay	<u>0</u>	<u>9,075</u>	<u>22,981</u>	<u>(13,906)</u>
Total expenditures	<u>11,589,418</u>	<u>11,176,568</u>	<u>11,030,945</u>	<u>145,623</u>
Excess of revenue over (under) expenditures	<u>(221,523)</u>	<u>(61,439)</u>	<u>116,349</u>	<u>177,788</u>
<u>Other Financing Sources (Uses)</u>				
Sale of fixed assets	500	6,621	6,621	0
Operating transfers in	0	30,500	30,500	0
Operating transfers out	<u>(176,629)</u>	<u>(186,473)</u>	<u>(186,326)</u>	<u>147</u>
Total other financing sources (uses)	<u>(176,129)</u>	<u>(149,352)</u>	<u>(149,205)</u>	<u>147</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(397,652)</u>	<u>(210,791)</u>	<u>(32,856)</u>	<u>177,935</u>
Fund balances - beginning of year	<u>1,100,120</u>	<u>1,100,120</u>	<u>1,100,120</u>	<u>0</u>
Fund balances - end of year	<u>\$ 702,468</u>	<u>\$ 889,329</u>	<u>\$ 1,067,264</u>	<u>\$ 177,935</u>

## OTHER INFORMATION

TAWAS AREA SCHOOLS  
Iosco County, Michigan

COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
June 30, 2004

	Food Service Fund	Athletic Fund	Debt Retirement Fund	Sinking Fund	Total Other Governmental Funds
<u>ASSETS</u>					
Cash and cash equivalents	\$ 17,416	\$ 23,068	\$ 55,378	\$ 180,964	\$ 276,826
Investments with escrow agent	0	0	6,740	0	6,740
Receivables:					
Accounts	125	0	0	0	125
Inventory:					
Supplies	<u>2,431</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,431</u>
Total Assets	<u>\$ 19,972</u>	<u>\$ 23,068</u>	<u>\$ 62,118</u>	<u>\$ 180,964</u>	<u>\$ 286,122</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accounts payable	<u>\$ 4,654</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,654</u>
<u>Fund Equity</u>					
Fund balances:					
Reserved:					
Food service fund	15,318	0	0	0	15,318
Debt retirement fund	0	0	62,118	0	62,118
Capital projects fund		0	0	180,964	180,964
Unreserved, reported in:					
Special revenue funds	<u>0</u>	<u>23,068</u>	<u>0</u>	<u>0</u>	<u>23,068</u>
Total fund equity	<u>15,318</u>	<u>23,068</u>	<u>62,118</u>	<u>180,964</u>	<u>281,468</u>
Total Liabilities and Fund Equity	<u>\$ 19,972</u>	<u>\$ 23,068</u>	<u>\$ 62,118</u>	<u>\$ 180,964</u>	<u>\$ 286,122</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2004

	Food Service Fund	Athletic Fund	Debt Retirement Fund	Sinking Fund	Total Other Governmental Funds
<u>Revenue</u>					
Local sources:					
Current property taxes	\$ 0	\$ 0	\$ 579,137	\$ 186,639	\$ 765,776
Lunch sales	210,309	0	0	0	210,309
Gate receipts	0	63,215	0	0	63,215
Interest on investments	123	79	3,150	985	4,337
Contributions	0	30,500	0	0	30,500
Other	12,097	4,131	0	0	16,228
State sources	31,345	0	0	0	31,345
Federal sources	218,518	0	0	0	218,518
Total revenue	<u>472,392</u>	<u>97,925</u>	<u>582,287</u>	<u>187,624</u>	<u>1,340,228</u>
<u>Expenditures</u>					
Current:					
Food services	472,761	0	0	0	472,761
Athletics	0	243,805	0	0	243,805
Debt service:					
Principal retirement	0	0	395,000	0	395,000
Interest and fiscal charges	0	0	182,116	0	182,116
Capital Outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>343,990</u>	<u>343,990</u>
Total expenditures	<u>472,761</u>	<u>243,805</u>	<u>577,116</u>	<u>343,990</u>	<u>1,637,672</u>
Excess of revenue over (under) expenditures	<u>(369)</u>	<u>(145,880)</u>	<u>5,171</u>	<u>(156,366)</u>	<u>(297,444)</u>
<u>Other Financing Sources (Uses)</u>					
Operating transfers in	0	186,326	0	0	186,326
Operating transfers out	<u>0</u>	<u>(30,500)</u>	<u>0</u>	<u>0</u>	<u>(30,500)</u>
Total other financing sources (uses)	<u>0</u>	<u>155,826</u>	<u>0</u>	<u>0</u>	<u>155,826</u>
Excess of revenue and other sources over (under) expenditures and other uses	(369)	9,946	5,171	(156,366)	(141,618)
Fund balances - beginning of year	<u>15,687</u>	<u>13,122</u>	<u>56,947</u>	<u>337,330</u>	<u>423,086</u>
Fund balances - end of year	<u>\$ 15,318</u>	<u>\$ 23,068</u>	<u>\$ 62,118</u>	<u>\$ 180,964</u>	<u>\$ 281,468</u>

INDIVIDUAL FUND SCHEDULES

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
 DETAILS OF REVENUE COMPARED TO BUDGET  
 For the Year Ended June 30, 2004  
With Comparative Totals for the Year Ended June 30, 2003

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Local Sources</u>			
Current property taxes	\$ 3,454,697	\$ 3,448,100	\$ 3,334,888
Tuition	30,072	30,399	8,948
Medicaid fee for service	15,768	28,159	34,484
Interest on investments	7,300	7,272	12,320
Rents	8,367	8,367	0
Miscellaneous	43,140	52,298	53,556
	<u>3,559,344</u>	<u>3,574,595</u>	<u>3,444,196</u>
<u>State Sources</u>			
State aid foundation allowance	6,752,788	6,784,217	7,408,300
At risk	262,040	262,040	248,488
Early childhood education	52,800	52,800	52,800
Career prep	0	1,000	3,166
Drivers education	10,647	10,647	11,385
	<u>7,078,275</u>	<u>7,110,704</u>	<u>7,724,139</u>
<u>Federal Sources</u>			
E.C.I.A. Title I - regular	269,225	269,224	257,045
Title II - Improving teacher quality	94,365	94,365	0
Title II - Part D	0	0	8,713
Title V - Part A	1,281	1,281	1,327
Class size reduction	0	0	65,534
Technology Literacy Challenge	6,702	6,702	0
IDEA Flow-Thru	30,000	30,000	0
Medicaid outreach	196	350	294
Schools and roads grant funds	3,265	3,264	7,371
	<u>405,034</u>	<u>405,186</u>	<u>340,284</u>
<u>Interdistrict Sources</u>			
Pre-primary speech and language	30,465	15,000	18,235
Transportation	8,394	9,902	11,928
Vocational education	33,617	31,907	44,110
	<u>72,476</u>	<u>56,809</u>	<u>74,273</u>
<u>Other Financing Sources</u>			
Sale of fixed assets	6,621	6,621	211
Transfers from Athletic Fund	30,500	30,500	0
	<u>37,121</u>	<u>37,121</u>	<u>211</u>
Total Revenue and Other Financing Sources	<u>\$ 11,152,250</u>	<u>\$ 11,184,415</u>	<u>\$ 11,583,103</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2004  
With Comparative Totals for the Year Ended June 30, 2003

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Instruction</u>			
Basic Programs:			
Elementary:			
Salaries	\$ 1,623,283	\$ 1,623,045	\$ 1,833,870
Employee benefits	592,410	592,479	655,109
Purchased services	31,708	31,361	996
Supplies, materials and other	59,123	57,338	59,398
	<u>2,306,524</u>	<u>2,304,223</u>	<u>2,549,373</u>
Junior High:			
Salaries	812,929	812,926	782,389
Employee benefits	321,484	321,639	297,882
Purchased services	10,888	10,822	440
Supplies, materials and other	22,653	21,526	31,256
	<u>1,167,954</u>	<u>1,166,913</u>	<u>1,111,967</u>
High School:			
Salaries	1,303,306	1,303,260	1,266,334
Employee benefits	521,380	522,429	495,666
Purchased services	12,542	12,644	1,786
Supplies, materials and other	74,605	73,572	123,307
	<u>1,911,833</u>	<u>1,911,905</u>	<u>1,887,093</u>
Total basic programs	<u>5,386,311</u>	<u>5,383,041</u>	<u>5,548,433</u>
Added Needs:			
Special Education:			
Salaries	883,946	883,938	882,839
Employee benefits	368,171	368,137	344,450
Purchased services	21,195	24,518	24,026
Supplies, materials and other	8,470	8,299	14,164
	<u>1,281,782</u>	<u>1,284,892</u>	<u>1,265,479</u>
E.C.I.A. Title I:			
Salaries	155,408	155,403	150,000
Employee benefits	66,148	66,140	60,775
Purchased services	861	859	3,566
Supplies, materials and other	80,683	27,885	23,444
	<u>303,100</u>	<u>250,287</u>	<u>237,785</u>



TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2004  
With Comparative Totals for the Year Ended June 30, 2003

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Instruction</u> (Continued)			
Added Needs: (Continued)			
Title II - Part A & D:			
Salaries	\$ 65,267	\$ 65,267	\$ 0
Employee benefits	19,098	19,098	0
Professional development	90,646	10,000	8,230
Supplies, materials and other	0	0	5,713
	<u>175,011</u>	<u>94,365</u>	<u>13,943</u>
Class Size Reduction:			
Salaries	0	0	49,041
Employee benefits	0	0	11,263
	<u>0</u>	<u>0</u>	<u>60,304</u>
Technology Literacy Challenge:			
Professional development	1,676	1,676	0
Supplies, materials and other	5,026	5,026	0
	<u>6,702</u>	<u>6,702</u>	<u>0</u>
Title V - Part A:			
Media expense	<u>1,281</u>	<u>1,281</u>	<u>1,327</u>
Vocational Education:			
Salaries	119,176	119,170	198,627
Employee benefits	45,067	45,060	77,245
Purchased services	294,840	294,840	257,985
Supplies, materials and other	5,883	5,831	9,721
Career preparation	0	0	3,166
	<u>464,966</u>	<u>464,901</u>	<u>546,744</u>
Young 4's Program:			
Salaries	30,689	30,688	31,647
Employee benefits	13,565	13,562	14,154
Supplies, materials and other	1,895	1,900	2,260
	<u>46,149</u>	<u>46,150</u>	<u>48,061</u>
At Risk - Section 31A:			
Salaries and benefits	<u>262,040</u>	<u>262,040</u>	<u>248,488</u>
Total added needs	<u>2,541,031</u>	<u>2,410,618</u>	<u>2,422,131</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2004  
With Comparative Totals for the Year Ended June 30, 2003

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Instruction</u> (Continued)			
Adult Continuing Education:			
Basic:			
Salaries	\$ 3,126	\$ 3,126	\$ 13,108
Employee benefits	598	645	21,090
Purchased services	14,632	13,716	1,557
Supplies, materials and other	950	943	364
	<u>19,306</u>	<u>18,430</u>	<u>36,119</u>
Total instruction	<u>7,946,648</u>	<u>7,812,089</u>	<u>8,006,683</u>
<u>Support Services</u>			
Pupil Services:			
Health Services:			
Purchased services	<u>2,713</u>	<u>2,713</u>	<u>3,077</u>
Psychological Services:			
Purchased services	<u>49,500</u>	<u>47,953</u>	<u>52,841</u>
Speech Pathology and Audiology Services:			
Purchased services	<u>0</u>	<u>0</u>	<u>4,025</u>
Total pupil services	<u>52,213</u>	<u>50,666</u>	<u>59,943</u>
Instructional Staff:			
Improvement of Instruction:			
Salaries	<u>6,738</u>	<u>6,736</u>	<u>19,333</u>
Library:			
Supplies, materials and other	<u>9,935</u>	<u>9,930</u>	<u>12,491</u>
Audio-Visual:			
Supplies, materials and other	<u>224</u>	<u>224</u>	<u>52</u>
Total instructional staff	<u>16,897</u>	<u>16,890</u>	<u>31,876</u>

TAWAS AREA SCHOOLS  
Iosco County, MichiganGENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2004  
With Comparative Totals for the Year Ended June 30, 2003

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Support Services</u> (Continued)			
General Administration:			
Board of Education:			
Salaries	\$ 1,770	\$ 1,770	\$ 3,810
Purchased services	29,130	32,057	28,611
	<u>30,900</u>	<u>33,827</u>	<u>32,421</u>
Executive Administration:			
Salaries	126,296	126,296	221,622
Employee benefits	51,321	51,320	51,800
Purchased services	22,009	21,200	20,075
Supplies, materials and other	19,082	19,227	26,218
	<u>218,708</u>	<u>218,043</u>	<u>319,715</u>
Total general administration	<u>249,608</u>	<u>251,870</u>	<u>352,136</u>
School Administration:			
Salaries	641,570	641,130	688,902
Employee benefits	265,155	264,033	242,741
Purchased services	75	75	0
Supplies, materials and other	28,781	28,634	80,249
	<u>935,581</u>	<u>933,872</u>	<u>1,011,892</u>
Total school administration	<u>935,581</u>	<u>933,872</u>	<u>1,011,892</u>
Business:			
Fiscal Services:			
Salaries	66,121	66,121	0
Purchased services	75,717	75,716	59,477
Supplies, materials and other	19,321	19,321	18,049
	<u>161,159</u>	<u>161,158</u>	<u>77,526</u>
Operation and Maintenance:			
Salaries	363,971	363,493	366,580
Employee benefits	74,411	74,327	74,199
Purchased services	250,410	241,281	243,237
Supplies, materials and other	56,381	55,642	66,439
	<u>745,173</u>	<u>734,743</u>	<u>750,455</u>
Computer Technology:			
Salaries	90,419	90,418	86,562
Employee benefits	18,658	18,656	17,664
Supplies, materials and other	2,800	2,672	0
	<u>111,877</u>	<u>111,746</u>	<u>104,226</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

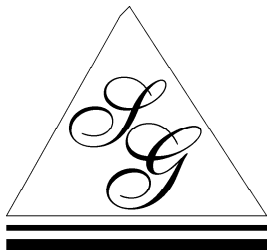
GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2004  
With Comparative Totals for the Year Ended June 30, 2003

	2004 Amended Budget	2004 Actual	2003 Actual
<u>Support Services</u> (Continued)			
Transportation:			
Salaries	\$ 327,651	\$ 327,564	\$ 341,710
Employee benefits	63,186	63,166	67,302
Purchased services	56,037	54,632	60,729
Supplies, materials and other	89,168	86,383	113,452
	<u>536,042</u>	<u>531,745</u>	<u>583,193</u>
Total business	<u>1,554,251</u>	<u>1,539,392</u>	<u>1,515,400</u>
Employee benefits	<u>409,898</u>	<u>400,790</u>	<u>345,430</u>
Total support services	<u>3,218,448</u>	<u>3,193,480</u>	<u>3,316,677</u>
<u>Community Services</u>			
Crossing Guard:			
Salaries	1,987	1,987	1,941
Employee benefits	410	408	397
Total community services	<u>2,397</u>	<u>2,395</u>	<u>2,338</u>
<u>Capital Outlay</u>			
Instruction	0	8,613	120,463
Support services	9,075	14,368	79,188
Total capital outlay	<u>9,075</u>	<u>22,981</u>	<u>199,651</u>
<u>Transfers</u>			
Athletic Fund	<u>186,473</u>	<u>186,326</u>	<u>177,989</u>
Total Expenditures and Transfers	<u>\$ 11,363,041</u>	<u>\$ 11,217,271</u>	<u>\$ 11,703,338</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 SPECIAL REVENUE FUNDS  
For the Year Ended June 30, 2004

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>			
Local sources:			
Lunch sales	\$ 210,310	\$ 210,309	\$ (1)
Gate receipts	52,000	63,215	11,215
Interest on investments	266	202	(64)
Contributions	33,835	30,500	(3,335)
Other	29,438	16,228	(13,210)
State sources	31,345	31,345	0
Federal sources	<u>223,660</u>	<u>218,518</u>	<u>(5,142)</u>
Total revenue	<u>580,854</u>	<u>570,317</u>	<u>(10,537)</u>
<u>Expenditures</u>			
Current:			
Food services	477,911	472,761	5,150
Athletics	<u>265,567</u>	<u>243,805</u>	<u>21,762</u>
Total expenditures	<u>743,478</u>	<u>716,566</u>	<u>26,912</u>
Excess of revenue over (under) expenditures	<u>(162,624)</u>	<u>(146,249)</u>	<u>16,375</u>
<u>Other Financing Sources (Uses)</u>			
Operating transfers in	179,469	186,326	6,857
Operating transfers out	<u>(30,500)</u>	<u>(30,500)</u>	<u>0</u>
Total other financing sources (uses)	<u>148,969</u>	<u>155,826</u>	<u>6,857</u>
Excess of revenue and other sources over (under) expenditures and other uses	(13,655)	9,577	23,232
Fund balances - beginning of year	<u>28,809</u>	<u>28,809</u>	<u>0</u>
Fund balances - end of year	<u>\$ 15,154</u>	<u>\$ 38,386</u>	<u>\$ 23,232</u>



*Stephenson Gracik & Co., P.C.*

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Kyle E Troyer, CPA

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Herman A Bertuleit, CPA

October 4, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

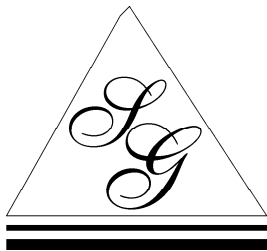
As part of obtaining reasonable assurance about whether Tawas Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance that we have reported to Tawas Area Schools in a separate letter dated October 4, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tawas Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*



# *Stephenson Gracik & Co., P.C.*

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Herman A Bertuleit, CPA

October 4, 2004

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the Tawas Area Schools for the year ended June 30, 2004, and have issued our report thereon dated October 4, 2004. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 1, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Tawas Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Tawas Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Tawas Area Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Tawas Area Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Tawas Area Schools' compliance with those requirements.

## Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Tawas Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Tawas Area Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Tawas Area Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments proposed, whether recorded or unrecorded by Tawas Area Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require that consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Tawas Area Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our tests of compliance as described in the fourth paragraph, one matter came to our attention upon which we would like to comment and offer the following recommendations.

Budget Control

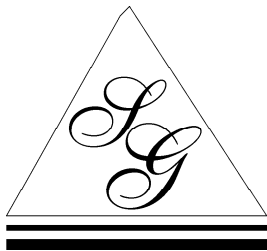
We noted that the School District's General Fund included expenditures in one function that exceeded appropriated amounts. We recommend that the Board of Education continue to amend the budgets for all funds periodically as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the School District.

This information is intended solely for the use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grubb & Co., P.C.*





*Stephenson Gracik & Co., P.C.*

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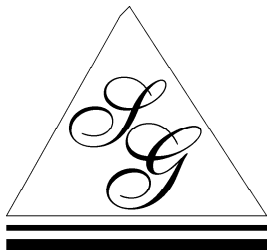
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Herman A Bertuleit, CPA

TAWAS AREA SCHOOLS  
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS  
YEAR ENDED JUNE 30, 2004

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Herman A Bertuleit, CPA

October 4, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools as of and for the year ended June 30, 2004, which collectively comprise the Tawas Area Schools basic financial statements and have issued our report thereon dated October 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

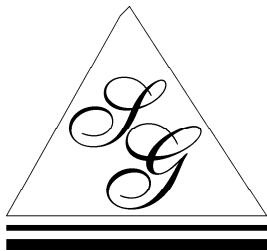
As part of obtaining reasonable assurance about whether Tawas Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to Tawas Area Schools in a separate letter dated October 4, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tawas Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*



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Herman A Bertuleit, CPA

October 4, 2004

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education  
Tawas Area Schools  
Iosco County, Michigan

### Compliance

We have audited the compliance of Tawas Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Tawas Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Tawas Area Schools' management. Our responsibility is to express an opinion on Tawas Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tawas Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Tawas Area Schools' compliance with those requirements.

In our opinion, Tawas Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

### Internal Control Over Compliance

The management of Tawas Area Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Tawas Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tawas Area Schools as of and for the year ended June 30, 2004, and have issued our report thereon dated October 4, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Tawas Area Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grault & Co., P.C.*

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2004

There were no findings or questioned costs for the year ended June 30, 2003.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2004

Summary of Auditors' Results

- (1) The auditors' report expresses an unqualified opinion on the financial statements of Tawas Area Schools.
- (2) No reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of Tawas Area Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No reportable conditions are disclosed regarding internal control over major federal award program compliance in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for Tawas Area Schools expresses an unqualified opinion.
- (6) The auditors' report disclosed no instances of findings relative to the major federal award program of Tawas Area Schools.
- (7) The programs tested as major programs included: Title I, CFDA #84.010.
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000
- (9) Tawas Area Schools qualified as a low-risk auditee.

Findings - Financial Statements Audit

There were no findings related to the financial statement audit for the year ending June 30, 2004.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award programs audit for the year ending June 30, 2004.

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2004

<u>Federal Grantor or Pass Through Grantor Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Inventory/ Accrued (Deferred) Revenue July 1, 2003</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Inventory/ Accrued (Deferred) Revenue June 30, 2004</u>	<u>Adjustments</u>
<u>U.S. Department of Agriculture</u>									
Child Nutrition Cluster:									
Passed through the Michigan Department of Education:									
School Breakfast Program									
2002-2003	031970	10.553	\$ 47,575	\$ 41,816	\$ 0	\$ 5,759	5,759	\$ 0	\$ 0
2003-2004	041970		44,231	0	0	44,231	44,231	0	0
			<u>91,806</u>	<u>41,816</u>	<u>0</u>	<u>49,990</u>	<u>49,990</u>	<u>0</u>	<u>0</u>
National School Lunch Program									
Section 4 - All Lunches									
2002-2003	031950	10.555	24,418	21,121	0	3,297	3,297	0	0
2003-2004	041950		21,679	0	0	21,679	21,679	0	0
Section 11 - Free and Reduced									
2002-2003	031960		117,862	101,919	0	15,943	15,943	0	0
2003-2004	041960		103,870	0	0	103,870	103,870	0	0
			<u>267,829</u>	<u>123,040</u>	<u>0</u>	<u>144,789</u>	<u>144,789</u>	<u>0</u>	<u>0</u>
Total Child Nutrition Cluster			<u>359,635</u>	<u>164,856</u>	<u>0</u>	<u>194,779</u>	<u>194,779</u>	<u>0</u>	<u>0</u>
Passed through the Michigan Department of Education:									
Food Distribution									
Entitlement Commodities	45030	10.550	21,884	0	0	21,884	21,884	0	0
Bonus Commodities	45030		1,855	0	0	1,855	1,855	0	0
			<u>23,739</u>	<u>0</u>	<u>0</u>	<u>23,739</u>	<u>23,739</u>	<u>0</u>	<u>0</u>
Passed through Iosco County:									
Schools and Roads Grants Funds		10.665	<u>2,386</u>	<u>0</u>	<u>0</u>	<u>2,386</u>	<u>2,386</u>	<u>0</u>	<u>0</u>
Total U.S. Department of Agriculture			<u>385,760</u>	<u>164,856</u>	<u>0</u>	<u>220,904</u>	<u>220,904</u>	<u>0</u>	<u>0</u>



TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2004

<u>Federal Grantor or Pass Through Grantor Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Inventory/ Accrued (Deferred) Revenue July 1, 2003</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Inventory/ Accrued (Deferred) Revenue June 30, 2004</u>	<u>Adjustments</u>
<u>U.S. Department of Education</u>									
Passed through the Michigan Department of Education:									
Title I - Grants to Local Educational Agencies									
2002-2003	031530 0203	84.010	\$ 301,970	\$ 257,045	\$ 0	\$ 44,925	\$ 44,925	\$ 0	\$ 0
2003-2004	041530 0304		<u>277,109</u>	<u>0</u>	<u>0</u>	<u>224,299</u>	<u>224,299</u>	<u>0</u>	<u>0</u>
			<u>579,079</u>	<u>257,045</u>	<u>0</u>	<u>269,224</u>	<u>269,224</u>	<u>0</u>	<u>0</u>
Passed through the Michigan Department of Education:									
Title V LEA Allocation									
2003-2004	040250 0304	84.298	<u>1,281</u>	<u>0</u>	<u>0</u>	<u>1,281</u>	<u>1,281</u>	<u>0</u>	<u>0</u>
Passed through the Michigan Department of Education:									
Technology Literacy Challenge Grants									
2003-2004	044290 0304	84.318	<u>6,702</u>	<u>0</u>	<u>0</u>	<u>6,702</u>	<u>6,702</u>	<u>0</u>	<u>0</u>
Passed through the Michigan Department of Education:									
Improving Teacher Quality									
2002-2003	030520 0203	84.367	89,595	5,230	0	84,365	84,365	0	0
2003-2004	040520 0304		<u>90,646</u>	<u>0</u>	<u>0</u>	<u>10,000</u>	<u>10,000</u>	<u>0</u>	<u>0</u>
			<u>180,241</u>	<u>5,230</u>	<u>0</u>	<u>94,365</u>	<u>94,365</u>	<u>0</u>	<u>0</u>
Passed through the Michigan Department of Education:									
Passed through Isoco Regional Service Agency:									
IDEA Flow Through 2003-2004	040450 0304	84.027	<u>30,000</u>	<u>0</u>	<u>0</u>	<u>30,000</u>	<u>30,000</u>	<u>0</u>	<u>0</u>
Total U.S. Department of Education			<u>797,303</u>	<u>262,275</u>	<u>0</u>	<u>401,572</u>	<u>401,572</u>	<u>0</u>	<u>0</u>
<u>U.S. Department of Health and Human Services</u>									
Passed through Iosco Regional Educational Service Agency:									
Medical Assistance Program Title XIX									
Transportation Claims		93.778	<u>350</u>	<u>0</u>	<u>57</u>	<u>350</u>	<u>407</u>	<u>0</u>	<u>0</u>
Total Federal Awards			<u>\$ 1,183,413</u>	<u>\$ 427,131</u>	<u>\$ 57</u>	<u>\$ 622,826</u>	<u>\$ 622,883</u>	<u>\$ 0</u>	<u>\$ 0</u>

TAWAS AREA SCHOOLS  
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2004

## Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
4. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
5. Expenditures include spoilage or pilferage.
6. Reconciliation to Financial Statements:

General Fund	\$ 405,186
Special Revenue Funds:	
Food Service Fund	218,518
Federal revenue from oil and gas royalties, included in General Fund	
total above, not subject to Single Audit reporting requirements	<u>(878)</u>
	 \$ <u><u>622,826</u></u>

FORM **SF-SAC**  
(5-2004)U.S. DEPT. OF COMM.—Econ. and Stat. Admin.—U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**Federal Audit Clearinghouse**  
**1201 E. 10th Street**  
**Jeffersonville, IN 47132****GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)****1. Fiscal period ending date for this submission**

Month	Day	Year
06	30	2004

Fiscal Period End Dates Must  
Be In 2004, 2005, or 2006**2. Type of Circular A-133 audit**1 ☒ Single audit    2 ☐ Program-specific audit**3. Audit period covered**1 ☒ Annual    2 ☐ Biennial    3 ☐ Other —  Months**4. FEDERAL  
GOVERNMENT  
USE ONLY**Date received by  
Federal clearinghouse**5. Auditee Identification Numbers****a. Primary Employer Identification Number (EIN)**

3 8 — 6 0 1 8 1 9 2

**b. Are multiple EINs covered in this report?** 1 ☐ Yes    2 ☒ No**c. If Part I, Item 5b = "Yes," complete Part I, Item 5c  
on the continuation sheet on Page 4.****d. Data Universal Numbering System (DUNS) Number** —  — **e. Are multiple DUNS covered in this report?** 1 ☐ Yes    2 ☐ No**f. If Part I, Item 5e = "Yes," complete Part I, Item 5f  
on the continuation sheet on Page 4.****6. AUDITEE INFORMATION****a. Auditee name**

TAWAS AREA SCHOOLS

**b. Auditee address (Number and street)**

245 W. M-55

City

TAWAS CITY

State

ZIP + 4 Code

MI

4 8 7 6 3 —

**c. Auditee contact**

Name

JERRY YOUNGS

Title

SUPERINTENDENT

**d. Auditee contact telephone**

( 989 ) 984 — 2250

**e. Auditee contact FAX**

( 989 ) 984 — 2253

**f. Auditee contact E-mail****7. AUDITOR INFORMATION (To be completed by auditor)****a. Auditor name**

STEPHENSON, GRACIK &amp; CO., P.C.

**b. Auditor address (Number and street)**

325 NEWMAN ST., PO BOX 592

City

EAST TAWAS

State

ZIP + 4 Code

MI

4 8 7 3 0 — 0 5 9 2

**c. Auditor contact**

Name

DONALD W. BRANNAN, CPA

Title

PARTNER

**d. Auditor contact telephone**

( 989 ) 362 — 4491

**e. Auditor contact FAX**

( 989 ) 362 — 8351

**f. Auditor contact E-mail****g. AUDITEE CERTIFICATION STATEMENT** — This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.Signature of certifying official    Date  
Month    Day    Year

Printed Name of certifying official

Printed Title of certifying official

**9. AUDITOR STATEMENT** — The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.Signature of auditor    Date  
Month    Day    Year

**FINANCIAL STATEMENTS (To be completed by auditor)****1. Type of audit report**

Mark either:

1 ☒ Unqualified opinion **OR**any combination of: 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion**2. Is a "going concern" explanatory paragraph included in the audit report?**1 ☐ Yes 2 ☒ No**3. Is a reportable condition disclosed?**1 ☐ Yes 2 ☒ No – *SKIP to Item 5***4. Is any reportable condition reported as a material weakness?**1 ☐ Yes 2 ☐ No**5. Is a material noncompliance disclosed?**1 ☐ Yes 2 ☒ No**FEDERAL PROGRAMS (To be completed by auditor)****1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12)**1 ☐ Yes 2 ☒ No**2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § \_\_\_\_ .520(b))**

\$ 300,000

**3. Did the auditee qualify as a low-risk auditee? (§ \_\_\_\_ .530)**1 ☒ Yes 2 ☐ No**4. Is a reportable condition disclosed for any major program? (§ \_\_\_\_ .510(a)(1))**1 ☐ Yes 2 ☒ No – *SKIP to Item 6***5. Is any reportable condition reported as a material weakness? (§ \_\_\_\_ .510(a)(1))**1 ☐ Yes 2 ☐ No**6. Are any known questioned costs reported? (§ \_\_\_\_ .510(a)(3) or (4))**1 ☐ Yes 2 ☒ No**7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ \_\_\_\_ .315(b))**1 ☐ Yes 2 ☒ No**8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)**98 ☐ U.S. Agency for International Development83 ☐ Federal Emergency Management Agency43 ☐ National Aeronautics and Space Administration96 ☐ Social Security Administration10 ☐ Agriculture39 ☐ General Services Administration89 ☐ National Archives and Records Administration19 ☐ U.S. Department of State23 ☐ Appalachian Regional Commission93 ☐ Health and Human Services05 ☐ National Endowment for the Arts20 ☐ Transportation11 ☐ Commerce97 ☐ Homeland Security06 ☐ National Endowment for the Humanities21 ☐ Treasury94 ☐ Corporation for National and Community Service14 ☐ Housing and Urban Development06 ☐ National Endowment for the Humanities82 ☐ United States Information Agency12 ☐ Defense03 ☐ Institute of Museum and Library Services47 ☐ National Science Foundation64 ☐ Veterans Affairs84 ☐ Education15 ☐ Interior07 ☐ Office of National Drug Control Policy00 ☒ None81 ☐ Energy16 ☐ Justice07 ☐ Office of National Drug Control Policy☐ Other – Specify:66 ☐ Environmental Protection Agency17 ☐ Labor59 ☐ Small Business Administration

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives ☒
- and, if not marked above, the Federal cognizant agency ☐

Count total number of boxes marked above and submit this number of reporting packages . . . .

1

**PART III** FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS					
Federal Agency Prefix <sup>1</sup> (a)	CFDA Number Extension <sup>2</sup> (b)	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)
						Major program (g)	If yes, type of audit report <sup>3</sup> (h)		
1 0	.553	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD NUTRITION CLUSTER - SCHOOL BREAKFAST PROGRAM	\$ 49,990.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0	.555	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD NUTRITION CLUSTER - NATIONAL SCHOOL LUNCH PROGRAM	\$ 144,789.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0	.550	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	FOOD DISTRIBUTION	\$ 23,739.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0	.665	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SCHOOLS AND ROADS GRANTS FUNDS	\$ 2,386.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.010	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE I	\$ 269,224.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
8 4	.298	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE V LEA ALLOCATION	\$ 1,281.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.318	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TECHNOLOGY LITERACY CHALLENGE GRANTS	\$ 6,702.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.367	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	IMPROVING TEACHER QUALITY	\$ 94,365.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.027	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	IDEA FLOW THROUGH 2003-2004	\$ 30,000.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 3	.778	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	MEDICAL ASSISTANCE PROGRAM TITLE XIX	\$ 350.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				\$ 622,826.00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)<sup>3</sup> If major program is marked "Yes," enter only one letter (**U** = Unqualified opinion, **Q** = Qualified opinion, **A** = Adverse opinion, **D** = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.<sup>4</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

- A. Activities allowed or unallowed  
 B. Allowable costs/cost principles  
 C. Cash management  
 D. Davis - Bacon Act  
 E. Eligibility  
 F. Equipment and real property management  
 G. Matching, level of effort, earmarking  
 H. Period of availability of Federal funds  
 I. Procurement and suspension and debarment  
 J. Program income  
 K. Real property acquisition and relocation assistance  
 L. Reporting  
 M. Subrecipient monitoring  
 N. Special tests and provisions  
 O. None  
 P. Other

<sup>5</sup> N/A for NONE

PART I Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.										f. List the multiple DUNS covered in the report.																										
1	N	A	21							41										1	N	A	21													
2			22							42										2			22													
3			23							43										3			23													
4			24							44										4			24													
5			25							45										5			25													
6			26							46										6			26													
7			27							47										7			27													
8			28							48										8			28													
9			29							49										9			29													
10			30							50										10			30													
11			31							51										11			31													
12			32							52										12			32													
13			33							53										13			33													
14			34							54										14			34													
15			35							55										15			35													
16			36							56										16			36													
17			37							57										17			37													
18			38							58										18			38													
19			39							59										19			39													
20			40							60										20			40													

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.